

TOWNSHIP OF LIVINGSTON
OTSEGO COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Livingston	County Otsego
Fiscal Year End March 31, 2006	Opinion Date August 31, 2006	Date Audit Report Submitted to State September 29, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

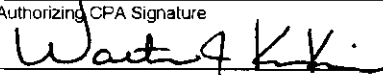
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Keskine, Cook, Miller & Alexander LLP		Telephone Number 989-732-7515	
Street Address 100 West First Street		City Gaylord	State MI
Zip 49735			
Authorizing CPA Signature 		Printed Name Walter J Keskine	License Number 1101008795

TOWNSHIP OFFICIALS

SUPERVISOR

NORMAN BRECHIESEN

CLERK

ELIZABETH MENCH

TREASURER

CHERYL PRUSAKIEWICZ

TRUSTEES

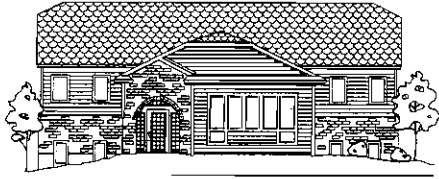
BETH DIPZINSKI

RICHARD CARLSON

LIVINGSTON TOWNSHIP

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Keskin, Cook, Miller & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskin, C.P.A.
Jeffrey B. Cook, C.P.A.
Richard W. Miller, C.P.A.
Ronald D. Alexander, C.P.A.
Curt A. Reppuhn, C.P.A.

INDEPENDENT AUDITOR'S REPORT

August 31, 2006

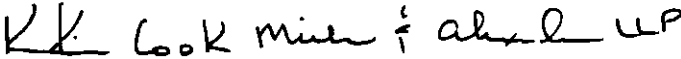
To the Township Board
Livingston Township
Otsego County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the major fund activities of the Township of Livingston, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities and the major fund activity of the Township of Livingston as of March 31, 2006, and the respective changes in financial position thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3-5 and budgetary comparison information on pages 23-25 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

 K. Cook

KESKINE, COOK, MILLER & ALEXANDER, LLP

Livingston Township

**3218 Old 27 North Gaylord, MI 49735
P.O. Box 1848 Gaylord, MI 49734**

LIVINGSTON TOWNSHIP OTSEGO COUNTY

MANAGEMENT DISCUSSION & ANALYSIS YEAR ENDED MARCH 31, 2006

This section of the Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2006. Please read it in conjunction with financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Assets at March 31, 2006 totaled approximately 997,701 for governmental activities and -0- for business-type activities. Of these totals, 244,487 represents capital assets net of depreciation.

Revenues derived from governmental activities were approximately 333,000 (6,000 from program revenues and 329,000 from general revenues). Overall expenses for the Township's governmental activities approximated 255,000.

There were no business-type activities for the fiscal year March 31, 2006.

The Township has no outstanding debt. Township improvements in the amount of 43,534 to the Township Hall, represents capital asset activity during the fiscal year. Capital asset activity is addressed further in a subsequent section of this letter.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts: management discussion and analysis, basic financial statements, and required supplementary information. Basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and business type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

Notes to the financial statements explain some of the information in the statements, and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues expenses regardless of when received or paid.

The two Government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities. This is one method to measure our financial health or position.

Over time, increases or decreases in the Township's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the Township, you may also have to consider additional factors such as tax base changes, facility conditions, and personnel changes.

Most of the activities of the Township are reported as governmental activities. These would include the operations recorded in the General Fund.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds, not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants; the Township board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Township has the following types of funds:

Governmental Funds: Most of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

Fiduciary Funds: The Township acts as a trustee and is responsible for ensuring that the assets of these activities are collected and disbursed to the respective entities to

which the funds belong. These activities do not appear in the Township's government-wide financial statements, since the assets do not belong to the Township. The Township maintains a Tax Collection Fund in this category.

Financial Analysis Of The Township As A Whole

Net Assets: Township net assets-governmental activities increased 78,125 during the year, to total 994,059.

Financial Analysis Of Township Funds

General Fund: This fund records all activities of the Township which are not required to be recorded in a separate fund. The major sources of revenue for the General Fund are the Township tax base, and revenue sharing from the State of Michigan. The major expenses for this fiscal year include the general operating activities of the Township: Administration, Assessing & Tax Collection, Township property, and Fire Protection.

Capital Asset Activity

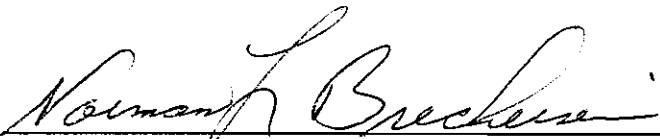
Capital Assets:

Capital Assets this year included improvements to the Township Hall.

Planned Capital Asset Activity: Continuing work under P.A. 425 agreement on the M-32 and U.S. 27 corridor with the City of Gaylord.

Contacting Township Management

This financial report is designed to provide our taxpayers, creditors, investors, and customers with a general overview of Township finances, and to demonstrate the Township's accountability for the revenue it receives. Should you have questions regarding this report, please contact Norm Brecheisen, Township Supervisor, at 361 McClouth, Gaylord, MI. (989-732-7688)

A handwritten signature in black ink, reading "Norman L. Brecheisen". The signature is written in a cursive style with a large, stylized initial "N".

Norman L Brecheisen, Township Supervisor

**TOWNSHIP OF LIVINGSTON
STATEMENT OF NET ASSETS
MARCH 31, 2006**

	GOVERNMENTAL ACTIVITIES
ASSETS	
Current Assets:	
Cash	\$ 397,149
Investments	337,640
Receivables:	
Delinquent Taxes	5,438
Accounts Receivable	4,405
Interest Receivable	6,000
Due from Other Funds	2,582
Total Current Assets	753,214
Non-Current Assets:	
Capital Assets	307,027
Less Accumulated Depreciation	(62,540)
Net Capital Assets	244,487
Total Non-Current Assets	244,487
Total Assets	997,701
LIABILITIES	
Current Liabilities	
Accounts Payable	3,642
Payroll Liabilities	-
Total Current Assets	3,642
NET ASSETS	
Investment in Net Capital Assets	244,487
Unrestricted	743,572
Total Net Assets	\$ 994,059

See accompanying notes to financial statements.

TOWNSHIP OF LIVINGSTON
STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2006

	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS & CONTRIBUTIONS	CAPITAL GRANTS & CONTRIBUTIONS	TOTAL GOVERNMENTAL ACTIVITIES
Governmental Activities					
General Government	\$ (160,633)	\$ 4,405	\$ -	\$ -	(156,228)
Public Works	(41,997)	-	-	-	(41,997)
Health & Welfare	(5,679)	-	-	-	(5,679)
Public Safety	(46,953)	-	-	-	(46,953)
Total Government	(255,262)	4,405	-	-	(250,857)

GENERAL REVENUES

Property Taxes	112,733
State Shared Revenue	187,675
Investment Earnings	23,479
Rental Income	5,048
Miscellaneous	47
Total General Revenues	328,982
CHANGE IN NET ASSETS	78,125
NET ASSETS - APRIL 1	915,934
NET ASSETS - MARCH 31	\$ 994,059

See accompanying notes to financial statements

GENERAL

Cash and Equivalents	\$ 397,149
Investments	337,640
Accounts Receivable	9,842
Due from Other Funds	2,582
	<hr/>
Total Assets	747,213

Accounts Payable	3,641
Payroll Liabilities	-

Total Liabilities	3,641
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Fund Balance	
Undesignated	743,572

Total Fund Equity	743,572
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Total Liabilities and Fund Equity	\$	747,213
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**TOWNSHIP OF LIVINGSTON
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
MARCH 31, 2006**

TOTAL FUND BALANCES - GOVERNMENTAL ACTIVITIES (PER BALANCE SHEET - PAGE 8)	\$ 743,572
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Amounts reported for governmental activities in the Statement of Net Assets (page 6) are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not recorded in the funds. This represents the amounts by which capital assets used in governmental funds exceeds accumulated depreciation.	244,487
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Interest accrued on certificates of deposit are not recorded in governmental funds using the modified accrual basis since they are not considered as current spendable resources.	6,000
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TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES (PER THE STATEMENT OF NET ASSETS - PAGE 6)	<u>\$ 994,059</u>
--	--------------------------

See accompanying notes to financial statements

**TOWNSHIP OF LIVINGSTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2006**

	GENERAL
Revenue:	
Taxes & assessments	\$ 112,733
State Shared Revenue	187,675
Charges for Services	4,405
Investment Income	23,479
Rents & Royalties	5,048
Miscellaneous	47
	<hr/>
Total Revenue	333,387
	<hr/>
Expenditures:	
General Government:	
Township Board	56,716
Supervisor	11,536
Election	1,304
Assessor	21,018
Clerk	18,150
Board of Review	978
Treasurer	19,321
Township Property	69,963
Roads	41,997
Planning & Zoning	5,679
Fire Protection	46,953
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	293,615
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Excess (Deficiency) of Revenue over Expenditures	39,772
Fund Balance - April 1	703,800
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Fund Balance - March 31	\$ 743,572
	<hr/> <hr/>

See accompanying notes to financial statements

**TOWNSHIP OF LIVINGSTON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2006**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	39,772
- PAGE 10		

Amounts reported for governmental activities in the Statement of Activities
(page 7) are different because:

Governmental funds report capital outlays as expenditures. However
in the statement of activities, the cost of those assets are capitalized
and depreciation charged to expense over their useful life.

Depreciation - current year		(5,181)
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Governmental funds expense the costs associated with the purchase
of assets but those costs are recorded as a non-current asset
and depreciated on the Statement of Activities.

		43,534
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CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES (PER THE STATEMENT OF ACTIVITIES - PAGE 7)		
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	\$	<u>78,125</u>
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See accompanying notes to financial statements

**TOWNSHIP OF LIVINGSTON
STATEMENT OF FIDUCIARY NET ASSETS
MARCH 31, 2006**

ASSETS

Cash	\$ 3,180
	<hr/>

LIABILITIES

Due to Other funds	2,582
Due to Other Governments/Individuals	598
	<hr/>
Total Liabilities	3,180
	<hr/>

NET ASSETS

Net Assets	\$ -
	<hr/> <hr/>

See accompanying notes to financial statements

**TOWNSHIP OF LIVINGSTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE A: ENTITY

The Township of Livingston is a general law township of the State of Michigan, located in Otsego County, Michigan. It operates under an elected board and provides services to its residents in many areas including public safety, community enrichment, and human services. The criteria for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service and special financing relationships. On this basis, the financial statements include all of the governmental functions of Livingston Township.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of Livingston Township are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures of the Township's financial activities.

The accounting policies of Livingston Township conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Township as a whole, excluding fiduciary activities such as tax collection activities.

Under the provisions of GASB Statements No. 34 and 38, the focus of the Township's financial statements has shifted from a fund focus to a government-wide focus.

**TOWNSHIP OF LIVINGSTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION
(CONTINUED))**

Government-Wide Financial Statements (Continued)

Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Township general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns with composite columns for non-major funds. The Township of Livingston has only one governmental fund, general. Therefore, no non-major funds are reported. The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The Township reports the following major governmental fund:

**TOWNSHIP OF LIVINGSTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION
(CONTINUED)**

FUND TYPES AND MAJOR FUNDS (CONTINUED)

General Fund - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants and other inter-governmental revenues.

Other Funds

Fiduciary Funds - These funds are used to account for assets held in trust or as an agent for others. Tax collection activities are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Government-Wide Financial Statements

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds).

Fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

**TOWNSHIP OF LIVINGSTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Governmental Fund Financial Statements

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available.

Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, fees, intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Property tax revenues are recognized as follows:

Properties are assessed as of December 31 and the related property taxes are levied on December 1 of the following year. These taxes are due on February 15; uncollected amounts are subsequently added to the county delinquent tax rolls. A county revolving fund normally pays the balance of the Township's tax levy by May 31 of each year. In accordance with GASB 33 "Accounting and Financial Reporting for Nonexchange Transactions", the Township records the property tax revenue when it becomes an enforceable legal claim for the Township. Therefore, all taxes levied on December 1, 2005, are recorded as revenue in the current year. The Township's taxable value for the 2005 tax year totaled \$105,450,718.

The tax rates for the year ended March 31, 2006, were as follows:

PURPOSE	RATE/ASSESSED VALUATION
General	0.900 mills per \$1,000

**TOWNSHIP OF LIVINGSTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

BUDGET

Each year the unit formulates and adopts a budget as follows:

1. In January or February a preliminary budget is prepared for all funds.
2. Review and annual budget hearing are held in March.
3. Budget is adopted at the Township Board meeting in March or April each year.

The budget as prepared conformed to P.A. 621 of 1978.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional and activity basis. The approved budgets of the Township for these budgetary funds were adopted on an activity level. Budgets as adopted end on March 31 of each year. There are no carryover budget items.

CAPITAL ASSETS AND DEPRECIATION

The Township's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$3,500 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Office furniture and equipment	10 – 15 years
Buildings and improvements	15 – 40 years

**TOWNSHIP OF LIVINGSTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS AND DEPRECIATION (CONTINUED)

Land and construction in progress are not depreciated.

For information describing capital assets, see Note E.

**LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND
DISCOUNTS/PREMIUMS**

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effect of interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

At this time, the Township has no outstanding long-term debt.

USE OF ESTIMATES

The financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governments and, as much, include amounts based on informed estimates and judgements of management with consideration given to materiality. Actual results could differ from those estimates.

NOTE C: CASH AND INVESTMENTS

Cash and equivalents consist of all cash on hand, checking and savings accounts, and certificates of deposit with an initial maturity of three months or less.

All cash deposits are maintained in financial institutions in the Gaylord, Michigan area. The Township's pooled and non-pooled deposits are categorized to give an indication of the level of risk assumed by the Township at fiscal year-end. The categories are described as follows:

**TOWNSHIP OF LIVINGSTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE C: CASH AND INVESTMENTS (CONTINUED)

Category 1 – Insured or collateralized with securities held by the Township or by its agent in the Township's name.

Category 2 – Collateralized with securities held by the pledging financial Institution's trust department or agent in the Township's name.

Category 3 – Uncollateralized.

	<u>BANK BALANCE</u>	<u>1</u>	<u>CATEGORY 2</u>	<u>3</u>	<u>CARRYING AMOUNT</u>
Checking & Savings	<u>\$ 400,792</u>	<u>\$ 294,476</u>	<u>\$ -</u>	<u>\$ 106,496</u>	<u>\$ 397,149</u>
Trust & Agency	<u>\$ 5,524</u>	<u>\$ 5,524</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,180</u>

<u>INVESTMENT TYPE</u>	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>CARRYING AMOUNT</u>
Certificates of Deposit	<u>\$ 302,329</u>	<u>\$ 35,311</u>	<u>\$ -</u>	<u>\$ 337,640</u>

(1) Insured and registered, or securities held by the Township or the Township's Agent in the Township's name.

(2) Uninsured and unregistered, with securities held by the counter party's trust department or its agent in the Township's name.

(3) Uninsured and unregistered, with securities held by the counter party's trust department or agent but not the Township's name.

The Township's investments are in accordance with statutory authority.

NOTE D: ACCOUNTS RECEIVABLE

PROPERTY TAXES

Property taxes due from tax payers are categorized as follows:

Current \$ 5,438

**TOWNSHIP OF LIVINGSTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE D: ACCOUNTS RECEIVABLE (CONTINUED)

INTEREST

Interest accruals on Certificates of Deposit \$ 6,000

ACCOUNTS RECEIVABLE

Billing for collection of summer taxes \$ 4,405

No allowance on accounts receivable is considered necessary at March 31 2006.

NOTE E: CAPITAL ASSETS

	<u>CAPITAL ASSETS NOT DEPRECIATED</u>		<u>CAPITAL ASSETS DEPRECIATED</u>		
	<u>Land</u>	<u>Water System Construction</u>	<u>Buildings & Components</u>	<u>Furniture & Equipment</u>	<u>Totals</u>
<i>Governmental Activities</i>					
Balance, April 1, 2003	\$ 43,380	\$ 78,331	\$ 111,396	\$ 30,386	\$ 263,493
Increases	-	-	43,534	-	43,534
Decreases	-	-	-	-	-
Balance, March 31, 2006	<u>43,380</u>	<u>78,331</u>	<u>154,930</u>	<u>30,386</u>	<u>307,027</u>
<i>Accumulated Depreciation</i>					
Balance, April 1, 2003	-	-	41,533	15,826	57,359
Increases	-	-	3,012	2,169	5,181
Decreases	-	-	-	-	-
Balance, March 31, 2006	<u>-</u>	<u>-</u>	<u>44,545</u>	<u>17,995</u>	<u>62,540</u>
<i>Governmental Activities</i>					
Capital Assets, Net	<u>\$ 43,380</u>	<u>\$ 78,331</u>	<u>\$ 110,385</u>	<u>\$ 12,391</u>	<u>\$ 244,487</u>

Depreciation expense was charged to functions of the Township as follows:

Governmental Activities

Elections	\$ 333
Township Property	<u>4,848</u>
Total	<u>\$ 5,181</u>

**TOWNSHIP OF LIVINGSTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE F: INTERFUND RECEIVABLES AND PAYABLES

Inter-fund receivables and payables consist of:

Monies collected in the property tax collection fund and not disbursed to the General fund at March 31, 2006. \$ 2,582

NOTE G: PENSION PLAN

The Township of Livingston contributes to a pension plan which is a defined contribution pension plan administered by the Municipal Retirement Systems.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under the Township's defined contribution pension plan, the benefits a participant will receive depends on the amount contributed to the participant's account and the returns earned on investments of those contributions.

All full-time employees and elected officials over the age of 18 are eligible to participate in the plan. Contributions made by the Township and employees are fully vested immediately. The participant will receive all vested benefits upon termination of employment with the Township.

The plan requires the Township to contribute 7.5% of the eligible employees current compensation. Additionally, 3% past service credit is also credited for a maximum of 10 years. The Township has met all pension obligations for the year ended March 31, 2006. In addition, employees may make voluntary contributions. The Township's contribution for the year totaled \$3,642.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

**TOWNSHIP OF LIVINGSTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE H: CONTINGENCIES

INSURANCE

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters.

The Township participates in the Michigan Township Participating plan, a self insured group. The pool is considered a public entity risk pool. The Township pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Township has not been informed of any special assessments being required. There were no significant changes in coverage.

NOTE I: 425 AGREEMENTS

Livingston Township has several contracts for transfer of property with the City of Gaylord, which is governed pursuant to P.A. 1984 NO. 425. The contract shall be in effect for 16 years from the date of contract. Livingston Township allows the City of Gaylord to extend water and sewer service to the property. During the contract the property shall be part of the jurisdiction of the City of Gaylord for all purposes and any revenues generated by the property belongs to the City. Upon expiration, the contract shall be renewable in whole or in part for an additional 10 years upon mutual agreement. The Township recognized \$17,835 in Act 425 income in the current year.

**TOWNSHIP OF LIVINGSTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2006**

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
REVENUES				
Property Taxes	\$ 96,000	\$ 96,000	\$ 94,898	\$ (1,102)
Act 425 Agreement	8,500	8,500	17,835	9,335
Tax Audit Reimb	-	-	25,000	25,000
Penalties & Interest	850	850	-	(850)
State Shared Revenue	139,056	139,056	162,675	23,619
Fees	5,275	5,275	4,405	(870)
Interest	11,000	11,000	23,479	12,479
Rent	5,000	5,000	5,048	48
Miscellaneous	400	400	47	(353)
Total Revenues	266,081	266,081	333,387	67,306
EXPENDITURES				
General Government:				
Township Board:				
Salaries	5,158	5,158	5,158	-
Fringes	4,600	4,600	4,703	(103)
Board Incentive	2,500	2,500	3,046	(546)
Professional Services	3,500	25,000	30,733	(5,733)
Education and Training	1,300	1,300	946	354
Retirement Fund	4,500	4,500	3,308	1,192
Printing and Publishing	2,000	2,000	628	1,372
Trustee Mileage	200	200	239	(39)
Dues & Subscriptions	-	-	2,001	(2,001)
Insurance and Bonds	8,000	8,000	4,460	3,540
Miscellaneous	-	-	1,494	(1,494)
Total Township Board	31,758	53,258	56,716	(3,458)
Township Supervisor:				
Salaries	8,406	8,406	8,406	-
Fringes	800	800	-	800
Board Incentive	2,000	2,000	1,720	280
Education and Training	4,000	4,000	561	3,439
Office Supplies	600	600	849	(249)
Total Township Supervisor	15,806	15,806	11,536	4,270
Election:				
Salaries	1,500	1,500	434	1,066
Voting Machine	900	900	620	280
Operating Supplies	1,575	1,575	250	1,325
Total Township Election	3,975	3,975	1,304	2,671

**TOWNSHIP OF LIVINGSTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2006**

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
Township Assessor:				
Salaries	19,530	19,530	19,530	-
Office Supplies	3,000	3,000	285	2,715
Education and Training	780	780	783	(3)
Data Processing	1,500	1,500	420	1,080
Total Township Assessor	24,810	24,810	21,018	3,792
Township Clerk:				
Salaries	15,148	15,148	15,148	-
Deputy Wages	250	250	229	21
Fringes	1,300	1,300	-	1,300
Board Incentive	1,500	1,500	686	814
Office Supplies	2,500	2,500	499	2,001
Education and Training	1,500	1,500	773	727
Clerk Mileage	300	300	165	135
Rent	600	600	650	(50)
Total Township Clerk	23,098	23,098	18,150	4,948
Township Board of Review:				
Salaries	1,200	1,200	708	492
Fringes	100	100	-	100
Travel	75	75	-	75
Education and Training	200	200	270	(70)
Total Township Board of Review	1,575	1,575	978	597
Township Treasurer				
Salaries	14,184	14,184	16,447	(2,263)
Deputy Wages	250	250	250	-
Fringes	1,300	1,300	-	1,300
Board Incentive	1,100	1,100	486	614
Office Supplies	3,500	3,500	272	3,228
Data Processing	1,500	1,500	420	1,080
Summer Tax Collection Expens	2,262	2,262	606	1,656
Education and Training	2,000	2,000	154	1,846
Treasurers Mileage	200	200	36	164
Rent	600	600	650	(50)
Total Township Treasurer	26,896	26,896	19,321	7,575

**TOWNSHIP OF LIVINGSTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2006**

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
Township Hall:				
Salary	3,500	3,500	3,990	(490)
Fringes	-	-	-	-
Telephone	500	500	453	47
Heating	3,500	3,500	2,801	699
Electric	2,000	2,000	1,485	515
Repair and Maintenance	10,340	10,340	2,631	7,709
Snow Plowing	1,500	1,500	1,640	(140)
Hall Improvements	40,000	60,000	44,799	15,201
Spring Cleanup	10,000	10,000	9,244	756
Miscellaneous	900	900	2,920	(2,020)
Total Township Hall	72,240	92,240	69,963	22,277
Total General Government	200,158	241,658	198,986	42,672
Planning Commission	12,000	12,000	5,679	6,321
Public Safety:				
Fire	43,407	43,407	46,953	(3,546)
Roads	40,000	40,000	41,997	(1,997)
Total Expenditures	295,565	337,065	293,615	43,450
Excess (Deficiency) of Revenues over Expenditures	29,484	70,984	39,772	110,756
Fund Balance - April 1	703,800	703,800	703,800	-
Fund Balance - March 31	\$ 674,316	\$ 632,816	\$ 743,572	\$ 110,756



Keskin, Cook, Miller & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskin, C.P.A.
Jeffrey B. Cook, C.P.A.
Richard W. Miller, C.P.A.
Ronald D. Alexander, C.P.A.
Curt A. Reppuhn, C.P.A.

August 31, 2006

To the Township Board
Township of Livingston, Otsego County

We have audited the financial statements of Livingston Township for the year ended March 31, 2006, and have issued our report thereon dated July 31, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 1, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Livingston Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Livingston Township are described in the notes to the financial statements.

We noted no transactions entered into by the Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The following attached page summarizes the adjustments that were proposed to management and made to the audited financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

The financial records of Livingston Township were well organized and we are happy to report that there were no difficulties in performing the audit.

Comments and Recommendations

In planning and performing our audit of the financial statements of Livingston Township, we considered the Township's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit procedures, we became aware of certain matters that represent opportunities for strengthening internal controls and operating efficiency. The following comments and recommendations should be implemented to the extent possible in order to strengthen internal controls and operating efficiency.

- We noted that the Township currently has a credit card with the Wal-Mart Corporation to allow the Township's elected officials to easily purchase Township supplies. The credit limit issued in conjunction with this credit card is \$3,000. However, the Township has not adopted a credit card policy. Strong internal controls and Board oversight would include the adoption of a credit card policy outlining the card's authorized users, acceptable credit limits, control processes such as storage of cards, approval of use, etc. We recommend the Board adopt a credit card policy which outlines the above mentioned items.
- There is a lack of control over billings for township services. Currently no one person accepts responsibility for maintaining a ledger of accounts receivable and as a result some amounts which should have been collected are still outstanding or have not been billed. A record should be maintained of all items to be billed via contract or for services

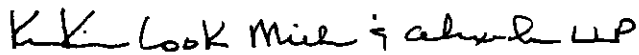
rendered and this record should be reviewed from time to time to insure collection of all appropriate amounts.

- The township minutes did not detail amounts to be paid or the amount of the budget that was adopted. Amounts or a listing of bills to be paid should be made part of the minutes. The budget adoption resolution should indicate the level of adoption and the amount adopted.

We hope that you find the above comments and recommendations useful. We are available to discuss these items in further detail with you at your convenience.

This information is intended solely for the information of the Township Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Keskine, Cook, Miller & Alexander LLP".

Keskine, Cook, Miller & Alexander LLP